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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 21 Friday, October 5, 1990

Analysis of Business Trends Plus Selected Financial Indicators

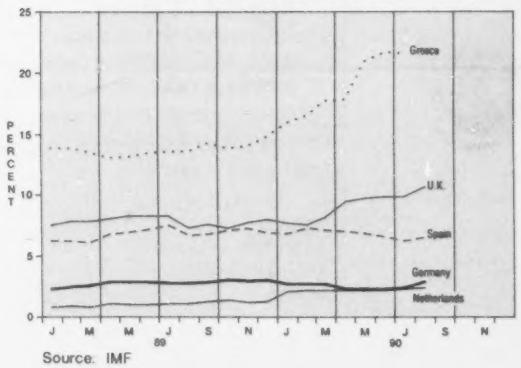
Gulf Crisis Stalls European Monetary Union

Only a few months ago, the drive toward monetary union by the 12-nation European Community (EC) was moving with such momentum that it seemed that each member country would be turning in its marks, francs, pounds, etc., for a single European currency as early as the mid-1990s. While the United Kingdom has always expressed reservations about relinquishing control of its monetary policy to an independent European central bank, the other 11 EC members supported the three-stage plan toward economic and monetary union (EMU) spelled out in the report written last year by a committee headed by the President of the European Commission, Jacques Delors (Financial Digest—July 31, 1989). In fact, the first stage of the Delors Report, which calls for closer economic and monetary policy coordination among all EC members, was implemented as scheduled on July 1.

While the Delors Report made no mention of dates for the implementation of the second and third stages, the European Commission now wants Stage II, which will prepare the groundwork for the creation of a European central bank, to begin on January 1, 1993, the date of the launching of the single European Market. The Commission would also like Stage III, which involves the creation of a single European currency managed by an independent central bank, to begin "soon after".

However, the unsettling events of this past summer—the Gulf crisis, the surge in oil prices and the higher-than-expected costs of German monetary union—have created huge misgivings among several EC member countries about such a rapid pace. All the countries except the United Kingdom are still committed to the ultimate goal of a single currency. They also agree that the European central bank must be totally independent and must give its first priority to price stability. However, several members have become extremely concerned that the EC as a whole may not be ready to take such a dramatic leap by 1993. At the moment, only France, Italy, Belgium, Luxembourg and Denmark are fully committed to the Delors "fast-track" approach.

CONSUMER PRICE INFLATION IN SELECTED EC COUNTRIES
(12-MONTH PERCENT CHANGES)



Source: IMF

Weaker Economies Need More Time

The chief reason that the other countries are now opting for a slower pace toward total monetary integration is that surging oil prices are expected to widen even further the already diverging economic performances of the EC nations. These countries, for example, have widely different inflation rates, ranging from under three percent in the Netherlands to over 20 percent in Greece (see chart). At the same time, countries such as Germany and Belgium are posting healthy current account surpluses, while those of the United Kingdom and Spain are deeply in the red. Also, the financial balance of the U.K. government is in surplus, while Italy's deficit is equivalent to 11 percent of its economy. Because the countries in the worst economic shape will be the hardest hit by today's oil crisis, rising petroleum prices will exacerbate these differences.

Higher oil prices are expected to cause Spain's inflation rate to reach 7½ percent by next year, a full percentage point above today's rate. What's more, because Spain imports over half of its oil needs, its current account deficit, already one of the largest in the world, could be equivalent to a whopping five percent of its economy by next year. As a result, Finance Minister Carlos Solchaga now wants to delay the second stage toward monetary union until 1994 in order to give the weaker economies more time to put their houses in order. His pro-

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posal was quickly supported by Portugal, Greece and Ireland.

Some Healthy Economies Have Reservations Too

It's not just the poorer countries that are calling for a slower approach, however. In fact, disagreement about the timing has produced a sharp rift in the German government. The Foreign Ministry, anxious for a united Germany to be strongly rooted in the European Community for political reasons, firmly backs the Delors full-speed-ahead pace. However, the central bank, backed by the Finance Ministry, is recommending caution. Bundesbank President Karl Otto Poehl now says that he is only willing to replace the well-regarded German central bank and Deutschemark with "something at least as good". What is more, the enormous costs of German monetary union—hefty bills for the West and surging unemployment for the East—have made the Finance Ministry aware of the dangers of hastily introducing a single currency before the economic differences between all parties involved have narrowed. While the mass exodus of East Germans to the West required quick monetary union in Germany, both the Bundesbank and Finance Ministry are strongly urging that a sufficient degree of economic convergence in the European Community be in

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/90)	209,444	- 1,579	- 8,561
New York City (9/26/90)	35,613	- 1,626	- 6,036
Commercial Paper (9/26/90)	563,207	+ 3,162	+ 50,774

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/90)	318,395	+ 1,138	+ 1,406
New York City (9/26/90)	57,015	- 1,119	- 1,027

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/90)	1,021,514	+ 3,568	+ 39,088
New York City (9/26/90)	178,534	- 5,425	+ 117

Financial Markets

	Friday 10/5/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.26%	- .09	- .54
180-Day Bills†	7.42	- .10	- .60
Longest Bills†	7.49	- .18	- .57
Recent Issues:			
8⅛s 9/15/92	7.80	- .19	
8½s 9/15/94	8.16	- .19	
8¾s 8/15/00	8.64	- .16	
8¾s 8/15/20	8.79	- .15	
Municipals:			
Bond Buyer—20 Bond Index* (10/4/90)	7.48%	- .05	+ .21
Blue List Total ($ Million)	$1,071	- $387	- $ 97
30-Day Visible Supply ($ Million)	$1,851	+ $687	- $1,494
Total	$2,922	+ $300	- $1,591
Corporates:			
Moody's Aa Composite (10/4/90)	9.75	- .14	+ .50
30-Day Visible Supply ($ Million)	$ 467	- $650	- $3,212
Stocks:			
Dow-Jones Averages:			
Industrials	2,510.65	+ 58.17	- 274.87
Transportation	866.32	+ 24.97	- 638.30
Utilities	205.42	+ 6.85	- 13.27
65 Stocks	881.48	+ 23.34	- 228.83
N.Y.S.E. Composite Index	170.70	+ 2.85	- 28.24
N.Y.S.E. Avg. Daily Vol. for Week (000's)	165,291	- 6,193	+13,807

*34% Taxable equivalent 11.33%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/5/90	Week Ago
Overnight	8.25%	8.50%
1 month	8.06	8.19
3 month	8.06	8.25
6 month	8.00	8.25
1 year	8.13	8.31

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/5/90)	Currency Per U.S. $	Week Ago
Belgium	31.59	32.25
Canada	1.1505	1.1543
France	5.1380	5.2425
Germany	1.5345	1.5663
Italy	1149.70	1171.70
Japan	132.60	138.15
Mexico	2901.00	2895.40
Netherlands	1.7308	1.7620
South Korea	703.00	703.59
Switzerland	1.2835	1.2990
Taiwan	26.78	26.80
U.K.*	1.9200	1.8730

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/5/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	-3.7%

place before a single currency be created there. The soaring costs of rebuilding East Germany, compounded by West Germany's promised payments for both Soviet troop withdrawal from East Germany and the Gulf military operation, have also made the Bundesbank increasingly nervous about relinquishing control of its monetary policy.

While France and its supporters agree that economic convergence among the EC countries is important, they argue that the Gulf crisis has made quick timing all the more urgent because monetary union will force the poorer countries to take the necessary measures to put their economies in order. They point, with some justification, to the superiority in economic performance of the countries that currently belong to the exchange rate mechanism of the European Monetary System (EMS) over those, like the United Kingdom, that do not.

In search for a compromise, the Dutch finance minister has proposed that the dates for the next stages of monetary union be set but should only be abided by if economic targets are met. So while the Community still remains on the road to monetary union, it may be the next century before transactions in marks, pounds and francs cease to take place. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/3/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	242,305	+ .546	+14.259
Loans to Depository Inst.	.511	- .010	- .467
Float	1.305	+ .973	+ .773
Total Reserve Bank Credit	285.326	+ 1.529	+20.551
Treasury Deposits with Federal Reserve Banks	7.701	+ 1.034	- 2.990
Currency in Circulation	272.349	+ 2.787	+24.467
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	236.673	+ 2.787	+ .362
	10/3/90		
Member Bank Reserves:			
Total Reserves Held	59.313	- 1.350	+ 1.207
Excess (Deficiency)	1.243	+ .472	+ .247
Net Free Reserves	.735	+ .664	+ .612
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (9/24/90)	821.7	+ 6.3	+ 4.9
M2 (9/24/90)	3,316.2	+ 5.9	+ 4.9
M3 (9/24/90)	4,085.8	+ 3.9	+ 2.0
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/5/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.06%	7.09%	7.02%
* Federal Agencies	7.83	7.90	8.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.94	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.10	8.12	8.05

‡ Finance Company Paper–Prime

5- 14 days	8.05%
15- 29 days	8.00
30- 59 days	7.95
60- 89 days	7.81
90-179 days	7.66
180-239 days	7.55
240-270 days	7.55

‡* Bankers' Acceptances

Nov.	7.97%
Dec.	7.85
Jan.	7.85
Feb.	7.77
Mar.	7.70
Apr.	7.65

‡ Industrial Paper–Prime

30- 89 days	8.00%
90-120 days	7.73

†Federal Funds Effective Rate 7.94%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,443 r	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,155 r	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	0.4 r	1.7	1.6
Change in Consumer Prices*	Aug '90	9.6 %	4.8%	0.0%
Change in MH Cost of Living Index*	Aug '90	4.8 %	6.0%	2.4%
Change in Producer Prices*	Aug '90	15.6 %	- 1.2%	- 3.6%
Civilian Employment (Thousands of Persons) †	Sep '90n	117,898	117,658	117,419
Unemployment as % of Civilian Labor Force †	Sep '90n	5.7%	5.6%	5.3%
Personal Income*	Aug '90n	$ 4,678	$ 4,665r	$ 4,399
Leading Indicators Composite Index (1967=100) †	Aug '90n	144.2	146.0r	144.8
Industrial Production Index (1977=100) †	Aug '90	109.8	110.0	108.2
Net Change in Consumer Installment Credit †	Jul '90	$ 4.47	$ 0.12	$ 2.74
U.S. Merchandise Trade Balance †	Jul '90	- $ 9.33	- $ 5.34	- $ 9.08
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Aug '90	1,127	1,147	1,325
New Construction Expenditures*	Aug '90n	$ 442.5	$ 442.4r	$ 433.9
Total Business Inventories †	Jul '90	$ 801.9	$ 796.5	$ 788.6
Total Business Sales †	Jul '90	$ 539.5	$ 542.4	$ 516.2

*Seasonally adjusted annual rate. † Seasonally adjusted.

n-Newly reported figure r-Revised. a-Anticipated.

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